GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2608
ANSWERED ON:17.03.2006
DIRECT RELEASE OF FUNDS TO PANCHAYATS
Singh Shri Ganesh

Will the Minister of FINANCE be pleased to state:

(a) The guidelines issued in regard to allocation of funds to the State Government by the 12th Finance Commission;

(b) Whether 12th Finance Commission has issued instructions to allocate funds for development directly to the Panchayat keeping in view the size of population;

(c) If so, the details thereof;

(d) Whether the Government is aware that there are very small Panchayat units in many States of the country due to which nominal funds reach to them and no construction work is possible with such nominal amount;

(e) Whether the Government propose to formulate any concrete policy for proper utilization of the said funds; and

(f) If so, the details thereof?

Answer

Minister of State in the Ministry of Finance SHRI PAWAN KUMAR BANSAL

(a) to (f) As per Terms of Reference of the 12th Finance Commission, it was inter-alia mandated to recommend the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State. A sum of Rs. 20,000 crore has been provided for panchayats as grants-in-aid for the period 2005-10. Ministry of Finance has issued Guidelines on utilization of Local Bodies grants recommended by the 12th Finance Commission and its main features are annexed. The 12th Finance Commission has stated that it was for the State concerned to distribute the grants recommended by the Commission among the local bodies including those in the excluded areas in fair and just manner. The guidelines issued by Government of India for utilization of grants recommended by 12th Finance Commission provide for sufficient safeguard for proper utilization of grants released.

ANNEXURE TO LOK SABHA UNSTARRED QUESTION NO. 2608 ANSWERED ON THE 17th MARCH, 2006 REGARDING Direct Release of Funds to Panchayats

Main features of Guidelines on utilization of Local Bodies grants recommended by the 12th Finance Commission issued by Government of India

1. The allocation amongst various Municipalities and Panchayati Raj Institutions and also autonomous councils in excluded areas would be made by the States.

2. The best practices listed in para 8.19 of the report may be considered for adoption by States to improve the resources of the panchayats.

3. The PRIs should be encouraged to take over the assets relating to water supply and sanitation and utilize the grants for repairs / rejuvenation as also the O&M costs. The PRIs should, however, recover at least 50 percent of the recurring costs in the form of user charges.

4. Of the grants allocated for Panchayats, priority should be given to expenditure on the O&M costs of water supply and sanitation. This will facilitate Panchayats to take over the schemes and operate them.

5. Most States do not have credible information on the finances of their local bodies. Local bodies would continue to need funding support for building data base and maintenance of accounts. States may assess the requirement of each local body in this regard and earmark funds accordingly out of the total allocation recommended by Finance Commission.

6. States have to mandatorily transfer the grants released by the Centre to the PRIs and ULBs within 15 days of the same being credited to the State`s account.

7. Panchayats as defined in the Constitution can exist only when they are constituted as per the mandatory provisions of Articles 243B

and 243 C. Hence, grants will not be provided to a State (which is covered under Part IX of the Constitution) where elections for constituting these Panchayats have not been held for the period for which there were no elected panchayats as per the provisions of the Constitution.

8. State Finance Secretary would be required to provide a certificate every year of the percentage of grants spent on schemes of water supply and sanitation by the PRIs. States would also be required to provide details of recurring O&M cost recoverable by the PRIs on schemes of water supply.

9. In case of delayed transfer to PRIs beyond the specified period of 15 days, the State Government shall transfer to PRI amount of interest at the rate equal to the RBI Bank rate alongwith such delayed transfer of grants.

10. Government of India will withhold the amount short spent on schemes of water supply and sanitation by the PRIs. The withheld amount will be subsequently reimbursed upon confirmation that the short spending has been compensated in the subsequent period.

11. Comptroller and Auditor General of India would be expected to audit the release and use of the local bodies grants